



April 22, 2005

Robert E. Feldman
Executive Secretary,
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Subject: Classification of Commercial Credit Exposures – FIL-22-2005

After reviewing the interagency proposal in the March 28, 2005 letter, I felt compelled to write and share my views. Our institution is approximately \$425 million in size for your reference.

We have used a 10 level classification system for many years, and while subject to some varying levels of different interpretations have found it to be a highly effective tool in determining granularity of commercial credit risk. This also happens to be the same rating system that has been used by many very large national banks.

The basic premise of the interagency proposal is that if we have in place a system of increased granularity, it must be better. More is not necessarily better and I would submit that this is especially true with this proposal. There is no evidence in the proposal that this new classification will produce any tangible benefits. It will not reduce the number of troubled banks in the banking system, and will not impact the number of bank failures, or reduce the impact on the FDIC insurance fund.

What it will do is create additional cost and administrative burden for banks. This will come from acquiring new software or software upgrades, employee training, significantly increased administrative costs in internal validation of exposure grades, and dealing with increased debates with regulators and independent loan examiners on the proper rating of a borrower and related credit. Again, please note that at the end of the day, there will be no tangible benefit from this. I would venture to guess that the various agencies would need to add a significant number of examiners as the entire banking system in our country goes through this process and that the level of regulatory cost associated with this change would increase significantly and permanently.

While the proposal is of interest from an academic perspective, it accomplishes nothing tangible. We see no benefit for the community banking industry, depositors, or shareholders. We respectfully request that this proposal be retracted.

Sincerely,

Bruce MacNaughton
Executive Vice President & COO

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